

Message Text

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TO AMEMBASSY PARIS IMMEDIATE
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C O N F I D E N T I A L STATE 180992

STADIS/////////
USOECB; FOR UNDERSEC. COOPER FROM ACTING A.S. BOSWORTH

E.O. 11652: GDS

TAGS: ECON, ETRD, EAGR

SUBJECT: UNCTAD COMMODITIES: JUTE

1. FOLLOWING FOR YOUR REVIEW IS AN OUTLINE OF A DRAFT
U.S. POSITION PAPER FOR THE UPCOMING FIFTH UNCTAD PREPARA-
TORY MEETING ON JUTE AND JUTE PRODUCTS - GENEVA JULY 24-
28. WE WOULD APPRECIATE YOUR VIEWS ON IT.

BEGIN TEXT:

2. THE FIFTH UNCTAD PREPARATORY MEETING ON JUTE AND
JUTE PRODUCTS WILL TAKE PLACE IN GENEVA JULY 24 THROUGH
28. IT WILL REVIEW THE LAST MEETING'S RECOMMENDATIONS
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PAGE 02 STATE 180992

FOR POSSIBLE ELEMENTS IN AN INTERNATIONAL ARRANGEMENT,
AND PRODUCERS WILL PROBABLY PRESS US TO DETERMINE WHETHER
NEGOTIATIONS ON A FORMAL INTERNATIONAL AGREEMENT SHOULD
BE SCHEDULED. IN THIS REGARD THE ISSUE OF INTERNATIONAL
PRICE STABILIZATION MEASURES WILL BE FOREMOST.

3. THE LAST UNCTAD JUTE MEETING RECOMMENDED SEVERAL

POSSIBLE ELEMENTS FOR AN INTERNATIONAL ARRANGEMENT
ON JUTE: STABILIZATION MEASURES, R AND D, COST REDUC-
TION AND INFORMATION EXCHANGE. MOST DISCUSSION SINCE

THE UNCTAD MEETINGS BEGAN HAS FOCUSED ON PRICE STABIL-
IZATION. THIS HAS BEEN AT PRODUCER INSISTENCE AS THEY
HAVE AVOIDED SUBSTANTIVE DISCUSSION OF "OTHER MEASURES"
WITHOUT PRIOR COMMITMENT BY THE CONSUMERS ON THE INCLUSION
OF PRICE STABILIZATION. ALTHOUGH CONSUMERS HAVE REJECTED
STABILIZATION MEASURES FOR JUTE PRODUCTS AND A FORMAL
INTERNATIONAL BUFFER STOCK FOR JUTE, THERE IS CURRENTLY
CIRCULATING A PROPOSAL FOR INTERNATIONALLY COORDINATED
NATIONAL STOCKS AND INTERNATIONAL FINANCING FOR THESE
STOCKS. VARIOUS FINANCING ARRANGEMENTS SUGGESTED SO
FAR INCLUDE DIRECT CONTRIBUTIONS FOR STOCK ACQUISITION,
DIRECT CONTRIBUTIONS FOR CARRYING COSTS, AND GOVERNMENT
GUARANTEED COMMERCIAL LOANS FOR THESE PURPOSES. LEVIES
ON THE TRADE HAVE ALSO BEEN SUGGESTED INFORMALLY BY
SOME CONSUMERS. THE TOTAL COST OF THE PROPOSED STOCKS
IS APPROXIMATELY 50 MILLION DOLLARS OF WHICH THE U.S.
SHARE BASED ON IMPORTS OF RAW JUTE WOULD BE ABOUT
850,000 DOLLARS. THIS PROPOSAL HAS SUBSTANTIAL EC
SUPPORT. ALTHOUGH PRODUCERS WANT MORE THEY SEEM
WILLING TO TAKE THIS PROPOSAL AS A BASIS FOR FURTHER
DISCUSSION.

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PAGE 03 STATE 180992

4. THE U.S. POSITION HAS BEEN THAT PRICE INSTABILITY
IS NOT REPEAT NOT JUTE'S MAJOR PROBLEM AND THE FOCUS
SHOULD BE ON "OTHER MEASURES" SUCH AS R AND D. OUR
ANALYSIS HAS LED TO THE FOLLOWING CONCLUSIONS:
(A) AVERAGE RAW JUTE PRICE FLUCTUATION SINCE 1960
HAS NOT BEEN SEVERE (12 PERCENT AROUND A FIVE-YEAR
MOVING AVERAGE);
(B) OCCASIONAL SHARP YEAR-TO-YEAR PRICE FLUCTUATIONS
(WHICH HAVE OCCURRED ONLY ABOVE THE TREND) HAVE
RESULTED AS MUCH FROM GOVERNMENT POLICIES AS FROM
ACTUAL SHORTAGES;
(C) THE COMPETITION WITH RICE FOR PRODUCTIVE LAND
COULD NOT BE CONTROLLED BY PRICE STABILIZATION
MEASURES FOR JUTE;
(D) THE INSTABILITY OF PRICE WHICH HAS OCCURRED HAS
NOT BEEN SUFFICIENTLY IMPORTANT TO JUTE'S COMPETI-
TIVENESS TO WARRANT THE ALLOCATION OF SCARCE RESOURCES
TO INTERNATIONAL STABILIZATION MEASURES; AND
(E) U.S. CONSUMER INTEREST IS MINIMAL GIVEN THE SMALL
QUANTITY OF RAW JUTE IMPORTED AND THE AVAILABILITY OF
SYNTHETIC SUBSTITUTES. ANNUAL U.S. IMPORTS ARE APPROX-
IMATELY 18,000 MT VALUED AT 6.3 MILLION DOLLARS. THEY

REPRESENT 3.3 PERCENT OF WORLD IMPORTS.

5. PRODUCERS MAY PRESS HARD AT THE UPCOMING MEETING FOR THE SCHEDULING OF NEGOTIATIONS ON AN INTERNATIONAL AGREEMENT WHICH WOULD INCLUDE PRICE STABILIZATION MEASURES. THE EC IS LIKELY TO AGREE. ON THE BASIS OF OUR ANALYSIS WE BELIEVE IT WOULD BE DIFFICULT TO MAKE A CREDIBLE ECONOMIC CASE FOR U.S. PARTICIPATION IN A PRICE STABILIZATION ARRANGEMENT FOR JUTE. WE ARE ALSO CONCERNED THAT ADMINISTRATION ADVOCACY OF A PRICE STABILIZATION ARRANGEMENT FOR JUTE WHICH FAILED TO MEET OUR STATED CRITERIA FOR U.S. PARTICIPATION IN SUCH ARRANGEMENTS (E.G. TO COUNTER EXCESSIVE PRICE FLUCTUATIONS, ETC.) COULD JEOPARDIZE CONGRESSIONAL CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 180992

SUPPORT FOR OTHER ARRANGEMENTS FOR WHICH THE CASE IS STRONGER AND THE BENEFITS GREATER. AT THE SAME TIME, WE DO NOT WISH TO BE IN A POSITION OF BLOCKING A JUTE ARRANGEMENT IF OTHER CONSUMING COUNTRIES WISH TO CONTRIBUTE TO A LIMITED, NON DISRUPTIVE STABILIZATION SCHEME. CONSEQUENTLY, THE U.S. DELEGATION WILL INDICATE OUR WILLINGNESS TO TAKE PART IN NEGOTIATIONS IF OTHER PARTICIPANTS CONSIDER THEM DESIRABLE, BUT WILL STRESS THAT OUR EMPHASIS WILL BE ON "OTHER MEASURES" WHERE WE BELIEVE SOMETHING USEFUL CAN BE ACCOMPLISHED. THE U.S. DELEGATION WILL MAKE IT CLEAR THAT, ALTHOUGH WE WILL KEEP AN OPEN MIND ON THE SUBJECT AS LONG AS POSSIBLE, WE REMAIN SKEPTICAL ABOUT THE BENEFITS OF INTERNATIONAL STABILIZATION MEASURES ON JUTE AND OUR PARTICIPATION IN ANY SUCH MEASURES WHICH ARE DEVELOPED IS DOUBTFUL.

6. WE RECOGNIZE THAT THIS WILL LIMIT U.S. PARTICIPATION IN JUTE STABILIZATION DISCUSSIONS AT THE MOST TO CONSTRUCTIVE CRITICISM AND MAY RISK FOCUSING BLAME UPON THE U.S. FOR ANY POSSIBLE EARLY FAILURE OF SUCH DISCUSSIONS. HOWEVER, WE WILL ATTEMPT TO PRESS A FORTHCOMING POSITION ON OTHER MEASURES WHICH SHOULD HELP TO BLUNT CRITICISM OF OUR VIEWS ON PRICE STABILIZATION. END TEXT.

7. THE ALTERNATIVE TO THIS APPROACH WOULD BE TO CONSIDER U.S. PARTICIPATION IN A COMMODITY AGREEMENT THAT INCLUDED A LIMITED STABILIZATION ELEMENT. AS NOTED IN PARA 3 ABOVE, IF THIS ELEMENT INVOLVED DIRECT CONTRIBUTIONS BASED ON TRADE SHARES, THE U.S. SHARE WOULD BE DE MINIMUS -- LESS THAN ONE MILLION DOLLARS. WE WOULD CONSULT IN ADVANCE WITH THE CONGRESS ON THIS CONFIDENTIAL

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PAGE 05 STATE 180992

APPROACH ARGUING THAT WHILE THE DIRECT BENEFITS TO THE

U.S. ARE MARGINAL, THIS MINIMAL CONTRIBUTION IS NECESSARY TO REACH AGREEMENT ON ARRANGEMENT OF GREAT IMPORTANCE TO BANGLADESH AND TO WHICH A NUMBER OF OTHER CONSUMING COUNTRIES ARE WILLING TO CONTRIBUTE. WE WOULD ALSO STRESS THE POLITICAL BENEFITS TO THE U.S. OF THIS MORE FORTHCOMING APPROACH ON A COMMODITY THAT HAS ASSUMED CONSIDERABLE SYMBOLIC IMPORTANCE IN THE INTEGRATED PROGRAM. SHOULD THE DISCUSSIONS FAIL, THE U.S. WOULD AT LEAST HAVE EARNED CREDIT FOR ITS WILLINGNESS TO PARTICIPATE.

8. DEPARTMENT HAS CONTRACTED AN EXTERNAL RESEARCH STUDY INTO THE POSSIBILITIES FOR INTERNATIONAL COOPERATION IN THE AREA OF JUTE RESEARCH AND DEVELOPMENT AND MARKET PROMOTION. THIS IS EXPECTED TO BE COMPLETED ABOUT NOVEMBER IN TIME TO PERMIT THE DEVELOPMENT OF "OTHER MEASURES" PROPOSALS PRIOR TO ANY NEGOTIATIONS.

CHRISTOPHER

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